

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
April 25, 2009 Through April 15, 2010**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LAWRENCE COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
April 25, 2009 Through April 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Lawrence County Sheriff for the period April 25, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,553,296 for the districts for 2009 taxes, retaining commissions of \$228,441 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,298,959 to the districts for 2009 taxes. Taxes of \$6,740 are due to the districts from the Sheriff and a refund of \$331 is due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Compton, Lawrence County Judge/Executive

Honorable Garrett Roberts, Lawrence County Sheriff

Members of the Lawrence County Fiscal Court

Independent Auditor's Report

We have audited the Lawrence County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010. This tax settlement is the responsibility of the Lawrence County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Lawrence County Sheriff's taxes charged, credited, and paid for the period April 25, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to



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provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

October 6, 2010

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period April 25, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 651,466	\$ 971,058	\$ 1,690,514	\$ 502,912
Tangible Personal Property	92,555	160,995	239,506	201,255
Fire Protection	5,658			
Increases Through Exonerations	61	73	148	44
Franchise Taxes	194,452	306,154	504,496	
Additional Billings	44	99	110	33
Unmined Coal - 2009 Taxes	10,794	13,772	28,009	8,334
Oil and Gas Property Taxes	56,091	71,570	145,553	43,311
Penalties	8,035	11,960	20,725	6,199
Adjusted to Sheriff's Receipt	(348)	(9,838)	204	
Gross Chargeable to Sheriff	<u>1,018,808</u>	<u>1,525,843</u>	<u>2,629,265</u>	<u>762,088</u>
<u>Credits</u>				
Exonerations	24,328	32,528	63,063	18,719
Discounts	11,158	16,566	28,761	9,929
Delinquents:				
Real Estate	27,641	43,295	71,317	21,221
Tangible Personal Property	<u>2,281</u>	<u>3,978</u>	<u>5,914</u>	<u>2,009</u>
Total Credits	<u>65,408</u>	<u>96,367</u>	<u>169,055</u>	<u>51,878</u>
Taxes Collected	953,400	1,429,476	2,460,210	710,210
Less: Commissions *	<u>40,519</u>	<u>59,331</u>	<u>98,408</u>	<u>30,183</u>
Taxes Due	912,881	1,370,145	2,361,802	680,027
Taxes Paid	909,706	1,359,480	2,354,731	675,042
Refunds (Current and Prior Year)	<u>2,969</u>	<u>4,384</u>	<u>7,402</u>	<u>4,732</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 206</u>	<u>\$ 6,281</u>	<u>\$ (331)</u>	<u>\$ 253</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period April 25, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on	\$	3,049,350
4% on	\$	2,460,210
1% on	\$	43,736

** Special Taxing Districts:

Library District	\$	4,054
Health District		321
Extension District		1,239
Fire & Rescue District		667

Due Districts	\$	<u>6,281</u>
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LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Lawrence County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LAWRENCE COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Lawrence County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 24, 2009 through April 15, 2010.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2009. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 17, 2009 through April 15, 2010.

Note 4. Interest Income

The Lawrence County Sheriff earned \$2,577 as interest income on 2009 taxes. The Sheriff is in substantial compliance with the distribution of interest income.

Note 5. Sheriff's 10% Add-On Fee

The Lawrence County Sheriff collected \$40,110 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff's tax account as of April 24, 2009 consisted of the following:

	<u>Balance</u>
2002 Tax Year Surplus	\$ 6,140
2003 Tax Year Surplus	961
2004 Tax Year Surplus	1,222
2005 Tax Year Surplus	1,343
2006 Tax Year Surplus	1,877
2008 Tax Year Surplus	<u>10,734</u>
	<u>\$22,277</u>

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts (Continued)

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasury.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Compton, Lawrence County Judge/Executive
Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lawrence County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010, and have issued our report thereon dated October 6, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lawrence County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation to be a material weakness.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lawrence County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Lawrence County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 6, 2010

COMMENT AND RECOMMENDATION

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 25, 2009 Through April 15, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. The bookkeeper collects and deposits tax receipts, records all transactions, prepares the monthly report, and reconciles the bank account. By not segregating these duties, there is an increased risk of a misappropriation of assets and/or inaccurate financial reporting. Good internal controls dictate the same employee should not handle, record, and reconcile receipts. If these duties cannot be segregated, the Sheriff should perform the following compensating controls to help offset this weakness:

- Recount and make the daily deposits.
- Agree daily tax collection total to the receipts ledger and deposit slip.
- Agree monthly tax reports to receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation.

Sheriff's Response: Ok.

